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TAGS: [PGOV](#) [PREL](#) [EG](#)
SUBJECT: EGYPT: ASSISTANT SECRETARY WELCH'S APRIL 4 MEETING
WITH PRIME MINISTER NAZIF

Classified by Stuart Jones, Deputy Chief of Mission for
reasons 1.4 (b) and (d).

Summary

¶1. (C) Assistant Secretary Welch and the Ambassador met with Egyptian Prime Minister Ahmed Nazif on April 4. Welch briefed Nazif on U.S. regional priorities and encouraged Nazif to make a visit to the U.S. Nazif discussed Egypt's reform successes, noting that results in the economic sphere were better than expected. On the political front, despite the flawed elections, progress had been made and reform would continue. Nazif expressed disappointment over the FTA and noted that he would only visit the U.S. if he could return with something positive. In the meantime, however, U.S-Egypt dialogue would continue, particularly on the future of U.S. assistance. End summary.

Regional Issues

¶2. (C) During a meeting with Egyptian PM Nazif, A/S Welch outlined his main areas of concern in the region, namely Israel-Palestine, Iran and Iraq. Iraq was the biggest problem, which was why Secretary Rice went there to press for quick formation of a national unity government. The south was relatively calm and the north was booming; Baghdad was the problem. The army was working well, Welch explained, but the police were infiltrated by the Badr Corps. The leadership of the Ministry of Interior would have to change. Nazif replied that strong, impartial leadership was definitely needed, but he didn't see any presently, nor any emerging in the near future.

¶3. (C) Nazif inquired about U.S. policy toward the PA, expressing concern over an extremist organization in power on Egypt's eastern border. Welch replied that the U.S. would not engage with Hamas-run PA ministries unless Hamas accepted the Quartet's three conditions. If Hamas did not accept the conditions, the U.S. would work to ensure its failure. No U.S. assistance would be provide to Hamas-run ministries; rather it would be redirected into humanitarian relief, with funds channeled through UN agencies and NGOs. The U.S., EU and most Arab donors agreed with this approach. Nazif inquired about assistance from Iran, and Welch replied that Iran did not have the \$100 million per month needed to operate the PA. Welch said that the next three months would test whether Hamas could become a partner for peace. In the meantime, the U.S. would remain in contact with the PA Presidency, so there would be a clear alternative when Hamas failed.

14. (C) Nazif suggested that no progress could be expected on the peace process for at least 3-6 months. Welch pointed out that the Israelis no longer believed negotiation was possible, as the Palestinians were not truly opposed to terrorism. Olmert might continue with his policy of unilateral action, which he now called "convergence." Nazif said he would keep open the channels of communication with both sides on the issue.

Economic Reform

15. (C) Nazif discussed Egypt's economic reforms, pointing out that growth was much higher than predicted. Foreign investment was coming in and construction was up, as was tourism, despite the Sharm attacks. The stock market had recovered from its slump, which was a reaction to slumps in other regional exchanges. The new tax law was working well and more people were paying taxes. New reform ministers were added to the Cabinet in 2005, a sign of Mubarak's confidence in reform. Some voices were against reform, however, particularly privatization, which was seen by some as selling the country to foreigners. Despite the criticism, the GOE was moving ahead on privatization, and the Bank of Alexandria had recently been put on the block. Despite setbacks like avian flu and the ferry disaster, Nazif believed reform would continue. The GOE would focus on real estate reform and creation of an investment conflict resolution mechanism. The big challenge, however, would be subsidies, particularly energy. The new Ministry of Social Solidarity would soon rebalance subsidies to target the poor, as the current system benefited the rich.

Political Reform

16. (C) On the political front, the GOE would soon present a draft law on temporary detention that conformed to international human rights norms, Nazif said. Nazif believed what was really needed was a new legal means to ensure security. The only legal tool the GOE had to maintain security was the Emergency Law, which needed to be replaced with something else. Nazif had therefore recently formed a committee to draft an anti-terrorism law, which would be introduced in the next 3 months. The committee was looking at U.S. and UK laws as examples.

17. (C) Nazif pointed out that the last election created a new challenge, which was how to respond to the social conditions that created support for the MB. One of the factors was a lack of credible secular opposition, Nazif said, as highlighted by the recent problems with the Wafd Party leadership. The NDP also needed to reform to counter the MB's appeal. Nazif hoped that by giving the opposition space and encouraging student and media involvement, a credible opposition might develop before the next presidential and parliamentary elections.

Image Problems

18. (C) Nazif lamented Egypt's image problem in the U.S., complaining that Ayman Nour and postponement of the municipal elections were all anyone heard about Egypt. The GOE hoped to counter this with a message about reform and Egypt's shared values with the U.S. Welch said that a visit from Nazif would go a long way toward reassuring Washington of Egypt's commitment to reform and good bilateral relations. U.S. investors were also looking for opportunities in the region, and a Nazif visit would help distinguish Egypt from more problematic countries in the region. Nazif said he would consider a visit, but was very disappointed by the lack of an FTA. It would be very difficult for him to visit unless he was sure of returning with something positive.

Welch replied that Washington also wanted something positive from Egypt to overcome the current impasse.

19. (C) Regarding assistance, Nazif was pleased that a dialogue had begun over the future of U.S. assistance to Egypt. Welch agreed the dialogue was positive and said that the U.S. would continue to quietly send officials to negotiate the future of assistance. There was a lot of room to maneuver on the issue. Welch repeated his call for Nazif to visit the U.S. and lend his voice to those advocating a strengthening of U.S.-Egyptian relations. A visit before summer would be best, as this was a political year and Congress would take all the breaks possible. Nazif agreed to consider a visit.

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